

with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-95-30 and should be submitted by September 6, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

**Margaret H. McFarland,**  
Deputy Secretary.

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[Release No. 34-36082; File No. SR-CBOE-95-16]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendment No. 1 to the Proposed Rule Change by the Chicago Board Options Exchange, Incorporated, Related by Multi-Market Orders**

August 10, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 1, 1995, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. On June 22, 1995, the Exchange filed Amendment No. 1 to the proposal.<sup>3</sup> The Commission

is publishing this notice of solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange proposes to amend Rule 6.48 to specify certain duties of CBOE members in effecting an option transaction on the CBOE that is part of a combined stock-option order. The text of the proposed rule change is available at the Office of the Secretary, the Exchange, and at the Commission.

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Section (A), (B), and (C) below, of the most significant aspects of such statements.

*(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

The purpose of the proposed rule change is to set forth in existing CBOE Rule 6.48 the duties of CBOE members executing an options order that is a component of a "package" stock-option order, the execution of which involves transactions in CBOE's option market and in another market (a "multi-market" order), and to specify the sole basis on which an options trade that is a component of a multi-market order may be cancelled by the members that are parties thereto. The proposed rule change would also make it inconsistent with just and equitable principles of trade, and consequently a violation of Exchange Rule 4.1, for a member to fail to fulfill the new requirements.

CBOE Rule 6.48 currently provides that bids or offers made and accepted in accordance with Exchange rules constitute binding contracts, but the Rule does not address the execution and cancellation of complex multi-market orders. Because such orders have become more prevalent at the CBOE as

but are not limited to, a sudden change in the price of the underlying securities prior to execution of the stock trade, and a trading halt or systems failure that precludes immediate execution of the stock trade at the agreed upon price. See Letter from Dan Schneider, Attorney, Schiff Hardin & Waite, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated June 30, 1995.

trading strategies have become more intricate, and because such orders involve concurrent executions at the CBOE and in markets other than the CBOE, the Exchange proposes to adopt new paragraph (b) to Rule 6.48. The Exchange believes that this amendment should establish well-defined conditions and requirements in its Rules that members must observe in executing and cancelling such transactions.

Proposed CBOE Rule 6.48(b) would apply to stock-option combination orders,<sup>4</sup> other than orders respecting index options,<sup>5</sup> and would impose two requirements on CBOE members who are parties to a stock-option combination order. First, a member announcing such an order to a trading crowd must disclose all legs of the order and must identify the specific markets and prices at which the non-option leg(s) are to be filled. Second, concurrent with the execution of the option leg of any multi-market order, the initiating member and each member that is a counterpart to the trade must take steps immediately to execute the non-option leg(s) in the identified market(s). Because both of these requirements are essential to fair and efficient order execution, proposed new paragraph (c) of Rule 6.48 would provide that any failure to observe either requirement will constitute a violation of CBOE's Rule 4.1, which prohibits conduct inconsistent with just and equitable principles of trade. The Exchange believes that these new provisions will clarify members' expectations about the execution of multi-market orders covered by the proposed rule and will promote prompt execution of each non-option component of such orders.

In addition to establishing requirements incident to execution, the proposed rule change sets forth one exclusive basis on which members may cancel an executed option transaction that is part of a multi-market order. Proposed Rule 6.48(b)(ii) indicates that

<sup>4</sup> A stock-option order is an order to buy or sell a stated number of units of an underlying or a related security coupled with either (a) the purchase or sale of option contract(s) of the same series on the opposite side of the market representing the same number of units of the underlying or related security or (b) the purchase and sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and number of units of the underlying or related security, on the opposite side of the market representing in aggregate twice the number of units of the underlying or related security. See CBOE Rule 1.1(ii).

<sup>5</sup> The CBOE believes that paragraph (iii) of proposed Rule 6.48(b) makes it clear that the proposed rule change will not apply to bids or offers included in combination orders that entail the purchase or sale of index options.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> In Amendment No. 1, the Exchange proposes to amend subparagraph (b)(ii) of CBOE Rule 6.48 to clarify that the market conditions that prevent the execution of the non-option leg(s) at the agreed upon price(s) would be the only basis for any one party to a trade representing the options leg of a multi-market order to cancel a trade. See Letter from Michael Meyer, Attorney, Schiff Hardin & Waite, to John Ayanian, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, dated June 22, 1995 ("Amendment No. 1").

The types of "market conditions" arising in a non-CBOE market that would be sufficient under proposed Rule 6.48(b)(ii) to justify cancellation of the CBOE leg(s) of a multi-market order, include,

any member that is a party to an options transaction that is part of a multi-market order may have the options transaction cancelled only in the event that market conditions in any of the identified non-CBOE markets prevent the execution of one or more of the non-option legs of the order. The Exchange believes that cancellation under this exclusive circumstance is fair and appropriate.

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act, in general, and furthers the objectives of Section 6(b)(5), in particular, in that it is designed to deal with special circumstances of multi-market orders in a manner that promotes just and equitable principles of trade and the protection of investors and the public interest.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any burden on competition.

*(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others*

No written comments were solicited or received with respect to the proposed rule change.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the

proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to SR-CBO-95-16 and should be submitted by September 6, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-36087; File No. SR-PHLX-95-63]

**Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Proposing to Extend its OTC/UTP Pilot Program**

August 10, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 3, 1995, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and simultaneously is approving the proposal.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Phlx, pursuant to Rule 19b-4 of the Act, proposes to extend the effectiveness of the pilot program and its accompanying rules regarding the trading of Nasdaq/National Market ("Nasdaq/NMS") securities on the Exchange pursuant to unlisted trading privileges ("Phlx OTC/UTP Pilot Program") for a six month period ending February 12, 1996.

<sup>6</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4 (1991).

The Exchange requests the Commission to find good cause, pursuant to Section 19(b)(2) of the Act, for approving the proposed rule change prior to the thirtieth day after publication in the **Federal Register**. Due to the non-controversial nature of the Phlx OTC/UTP Pilot Program, coupled with the impending lapse of the Phlx's OTC/UTP privileges on August 12, 1995, the Phlx respectfully requests accelerated approval of this filing.

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item III below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

*A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

**1. Purpose**

In 1985, the Commission published its policy to allow the extension of unlisted trading privileges ("UTP") by national securities exchanges in certain over-the-counter ("OTC") securities, provided that certain terms and conditions are satisfied. On June 26, 1990, the Commission approved the Joint Industry Plan for UTP in OTC securities ("Joint OTC/UTP Plan"), submitted by the National Association of Securities Dealers, Inc. ("NASD"), the American Stock Exchange, the Boston Stock Exchange, The Midwest Stock Exchange ("MSE," currently operating as the Chicago Stock Exchange, or "Chx"), and the Phlx.<sup>3</sup> The Joint OTC/UTP Plan governs the collection, consolidation, and dissemination of quotation and transaction information for Nasdaq/NMS securities traded on exchanges and by NASD market makers.

The Phlx files the current proposed rule change to continue the

<sup>3</sup> See Securities Exchange Act Release No. 28146 (June 26, 1990), 55 FR 27917. The Commission has approved two extensions of the effectiveness of the Joint OTC/UTP Plan. See Securities Exchange Act Release No. 34371 (July 13, 1994), 59 FR 37103 (order approving Amendment No. 1 to File No. S7-24-89), and Securities Exchange Act Release No. 35221 (January 11, 1995), 60 FR 3886 (order approving Amendment No. 2 to File No. S7-24-89, thereby extending the effectiveness of the Joint OTC/UTP Plan through August 12, 1995).